



CORROSION CORPORATION
An Environmental Protection Company

ANNUAL REPORT

June 30, 1996

NOTICE OF ANNUAL MEETING

and

INFORMATION CIRCULAR

Exchange Listing:
Alberta Stock Exchange (ASE)

Trading Symbol:
DCS

D.C. CORROSION CORPORATION

HEAD OFFICE

505 Sioux Road
Sherwood Park, Alberta
T8A 4H2
Tel. (403) 464-0233
Fax. (403) 467-1406

DIRECTORS

Neil J. Magrath
Lawrence R. Cunningham
Sean J. Himsl
James P. Morin

OFFICERS

Neil J. Magrath, President
Sean J. Himsl, Chief Financial Officer
Lawrence R. Cunningham, Secretary

SHARES ISSUED

8,597,554

TRANSFER AGENT & REGISTRAR

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta

AUDITORS

Ellis, Govenlock, Chartered Accountants
102, 11710 Kingsway Avenue
Edmonton, Alberta

SHARES LISTED

Alberta Stock Exchange
Trading Symbol: DCS

D.C. Corrosion Corporation

ANNUAL REPORT

June 30, 1996

President's Report

Management reflects back on an exciting and fast paced year. Much has been accomplished since the Corporation achieved it's public status on July 7, 1995. As a direct result of our efforts, the corporation continues to gain market share and attract new clientele with its stronger technical platform, more diversified services and larger geographic service area. Industry has responded favourably to these initiatives and is supportive of our continued growth.

D.C. Corrosion's first acquisition was Corrosion Canada Inc., a Calgary based corrosion company specializing in cathodic protection systems design and services. This strategic move proved to be more than a financial success with the Corporation capitalizing on the existing management & employees's experience, extensive industry knowledge and relationships.

Our second acquisition, Safe Excavating Services Ltd., specializing in Hydro-Vac Technologies added depth and diversity to the existing corporate service base. Operating as a wholly owned subsidiary of DC Corrosion Corporation, this fourth quarter purchase is providing a positive cash flow and has presented the Corporation with a great opportunity to expand into this growing environmentally sensitive marketplace.

As with all rapid growth companies, one of the greatest challenges management faces is building an infrastructure capable of maximizing the gain and realizing the full potential of the growth. Management recognized the need to implement an effective information system which included new accounting, inventory and time management software to assist in evaluating employee and corporate performance. Operations have been restructured to take advantage of economies of scale and to position the Corporation for future growth. D.C. Corrosion Services Ltd. and Corrosion Canada Inc. are now operating under DC Corrosion Corporation with a new corporate image developed to reflect our commitment to protect the environment.

The corporation continues to successfully expand it's customer base, highlights of the past year's growth include the relationships established with Mobil Oil, Imperial Oil and Wascana Resources. Continued emphasis will be placed on building relationships and entering into partnership arrangements with select clientele.

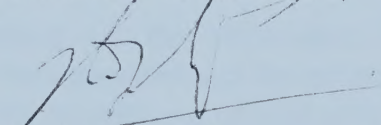
Recognized Internationally, the Corporation maintains a good standing with the National Association of Corrosion Engineers (NACE INTERNATIONAL). Future plans include capitalizing on the opportunities that are being created by emerging energy producing countries and the positioning Canada enjoys in these international markets.

Growth through the acquisition of like companies remains an emphasis of management. Several prospective candidates have been identified and negotiations for the purchase of one such company are underway at the present time.

Significant costs were realized by the Corporation throughout the past year associated with going public through the reverse take over (RTO), acquiring two companies and restructuring operations. Management is pleased to report to its shareholders that the company has realized a ninety percent (90%) growth over last year, and in spite of the added cost, was able to realize a significant cash flow and profits.

The directors are committed to increase public awareness of the Corporation, its business, performance and great potential. We wish to thank the shareholders for the support that they have provided throughout the fiscal 1995/1996 year.

On behalf of the Board,



Neil J. Magrath
President

D.C. CORROSION CORPORATION

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

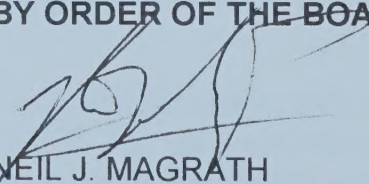
NOTICE is hereby given that the Annual General Meeting of the Shareholders of **D.C. CORROSION CORPORATION** (the "Corporation") will be held at #500, 9707 - 110 Street, Edmonton, Alberta, on the 30th day of OCTOBER, 1996 at the hour of 3:00 o'clock p.m., (Edmonton Time) for the following purposes:

1. To place before the Shareholders the Financial Statements for the year ending June 30, 1996.
2. To appoint auditors for the Corporation;
3. To elect directors for the ensuing year;
4. To transact such other business as may properly come before the Meeting.

Shareholders who are unable to attend the meeting are requested to read the following accompanying Information Circular and to complete the accompanying proxy and to deposit the proxy with The R-M Trust Company, 600 The Dome Tower, 333 - 7th Avenue, S.W., Calgary, Alberta, T2P 4P4, not later than 4:00 o'clock p.m. (Edmonton Time) on the last business day immediately preceding the date of the meeting.

Dated at Sherwood Park, Alberta, this 20th day of September, 1996.

BY ORDER OF THE BOARD OF DIRECTORS



NEIL J. MAGRATH
President of the Corporation

D.C. CORROSION CORPORATION

INFORMATION CIRCULAR **SOLICITATION OF PROXIES**

This Information Circular is furnished in connection with the solicitation of proxies by the management of D.C. Corrosion Corporation ("DC" or the "Corporation") for use at the annual meeting (the "Meeting") of the shareholders of the Corporation to be held at #500, 9707 - 110 Street, Edmonton, Alberta, on the 30th day, of October, 1996 at the hour of 3:00 o'clock in the afternoon, for the purposes set forth in the accompanying Notice of Annual Meeting. The cost of this solicitation will be borne by the Corporation.

1. APPOINTMENT OF PROXIES

Those shareholders of the Corporation who desire to be represented at the Meeting by proxy must complete and deposit their proxy at the offices of the Corporation's Transfer Agent, The R-M Trust Company, 600 The Dome Tower, 333 - 7th Avenue, S.W., Calgary, Alberta T2P 4P4, no later than 4:00 p.m. (Calgary Time) on the last business day immediately preceding the date of the Meeting. A proxy must be executed by the shareholder or by his attorney authorized in writing, or if the shareholder is a corporation, under its seal or by an officer or attorney thereof duly authorized.

The person named in the accompanying proxy is an officer of the Corporation. A shareholder has the right to appoint a person (who need not be a shareholder) to attend and act on his behalf at the Meeting other than the persons named in the proxy. To exercise this right, the shareholder must strike out the names of the persons named in the proxy and insert the name of his nominee in the space provided or complete another form of proxy and, in either case, deposit the proxy with The R-M Trust Company at the place and within the time specified above for the deposit of proxies.

2. EXERCISE OF DISCRETION BY PROXY

The shares represented by the proxy enclosed with this Information Circular will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for and if the shareholder specifies a choice with respect to any matter to be acted on, the shares will be voted accordingly but if no specification is made, they will be voted in favour of the matters set forth in the proxy. If any amendments or variations are proposed at the Meeting or any adjournment thereof to the matters which are set forth in the proxy and described in the accompanying Notice of Special and Annual Meeting of the Shareholders and Information Circular, or if any other matters properly come before the Meeting or any adjournment thereof, the proxy confers discretionary authority upon the proxyholder to vote on such amendments or variations or such other matters in the sole discretion of the person who has been appointed as proxyholder. At the date of this Information Circular, the management of the Corporation knows of no such amendments or variations or other matters to come before the Meeting.

3. REVOCATION OF PROXIES

A shareholder who has given a proxy has the power to revoke it. If a person who has given a proxy personally attends at the Meeting for which the proxy has been given, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing signed by the shareholder or his attorney authorized in writing, or, if the shareholder is a corporation, under its corporate seal or signed by a duly authorized officer or attorney for the corporation, and either delivered to the Corporation's Transfer Agent, The R-M Trust Company, 600 The Dome Tower, 333 - 7th Avenue, S.W., Calgary, Alberta, T2P 4P4 at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof or deposited with the Chairman of the Meeting on the day of the Meeting prior to the commencement of the Meeting.

4. INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

None of directors or senior officers of the Corporation, nor any person who has held such a position since the beginning of the last completed financial year of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting except as disclosed in this Information Circular under the headings "Election of Directors".

5. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Corporation has only one class of securities entitled to vote at the Meeting, namely, common shares (the "common shares"). Each common share confers upon the holder thereof the right to one non-cumulative vote. There are presently 8,597,554 common shares issued and outstanding. All issued and outstanding common shares of the Corporation are entitled to be voted at the Meeting.

The record date for the determination of shareholders entitled to receive notice of the Meeting is the close of business the 20th day of September, A.D. 1996. Any person acquiring common shares of the Corporation after the 20th day of September, A.D. 1996 may, upon proof of ownership of such common shares, request not later than 10 days before the Meeting that his name be included in the list of persons entitled to vote at the Meeting.

To the knowledge of the directors and senior officers of the Corporation, no persons, beneficially own, directly or indirectly, or exercise control or direction over, securities carrying more than 10% of the voting rights attached to all outstanding securities of the Corporation except Neil Magrath, who holds, directly or indirectly, 3,341,000 and Jim Morin who holds, directly or indirectly, 852,000.

6. CONSIDERATION OF FINANCIAL STATEMENTS

The financial statements of the Company for the year ended June 30, 1996 will be placed before the Shareholders for their consideration.

7. APPOINTMENT OF AUDITORS

It has been proposed that Ellis Govenlock, Chartered Accountants, Edmonton, Alberta be appointed as auditor of the Corporation to hold office until the next Annual General Meeting of the Shareholders at a remuneration to be fixed by the Directors of the Corporation.

8. ELECTION OF DIRECTORS

The management of the Corporation intends to nominate at the Meeting the persons named in the following table for election as directors of the Corporation. Each person who is elected as a director will hold office until the next annual meeting or until his successor is duly elected or appointed or his resigns.

Name and Present Position With the Corporation	Principal Occupation For Past Five Years	Director Since	Voting Securities*
Neil J. Magrath President	Businessman	July, 1995	3,341,000
Sean J. Himsl Chief Financial Officer	Businessman	April, 1996	95,000
Lawrence R. Cunningham Secretary	Barrister and Solicitor	July, 1995	426,000

The Corporation does not have an executive committee of its Board of Directors.

The current directors and officers of the Corporation as a group hold a total of 3,862,000 shares of the Corporation, or approximately 44.9 percent of the total issued and outstanding common shares.

* Neil Magrath controls directly or indirectly more than 20% of the voting rights attached to all voting securities of the Corporation.

9. EXECUTIVE COMPENSATION

Cash

Neil J. Magrath	\$ 79,000
Daryle H. Warnke	\$ 71,875
Cam A. Brands	\$ 71,875
Sean J. Himsl	\$ 23,000

Other Compensation

No other compensation was paid or distributed to the executive officers during the last completed financial year.

Compensation in the Event of Termination of Employment or Change of Control

The Corporation is committed to developing a plan to compensate the executive officers in the event of the termination of their employment or a change in their responsibilities following a change in the control of the Corporation. As of June 30, 1996, no such plan exists.

Compensation of Directors

The directors of the Corporation receive no fees or other compensation for their services as directors of the Corporation. The aggregate amount of expenses reimbursed by the Corporation to the directors of the Corporation during the last financial year of the Corporation was less than \$5,000.

10. INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

Except as set out in the Financial Statements of the Corporation ending June 30, 1996, no director or senior officer of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any director or senior officer of the Corporation or proposed nominee for election as a director of the Corporation, has been indebted to the Corporation at any time since the beginning of the last completed financial year of the Corporation.

11. INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

None of the directors or senior officers of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Corporation, nor any associate or affiliate of the foregoing persons except as set forth herein, has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last completed financial year or in any proposed transaction which, in either case, has or will materially affect the Corporation.

12. OTHER MATTERS TO BE ACTED UPON

CONCLUSION

The management of the Corporation knows of no other matters to come before the Meeting other than those referred to in the Notice of Meeting. Should any other matters properly come before the Meeting, the Shares represented by the proxy solicited hereby will be voted on such matter in accordance with the best judgment of the persons voting the proxy.

DATED at Sherwood Park, Alberta this 20th day of September, 1996.

BY ORDER OF THE BOARD

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

The undersigned further certifies that the contents of the foregoing Information Circular and the sending of such circular to the Shareholders of the Corporation has been approved by the Directors of the Company.

DATED: September 20, 1996



NEIL J. MAGRATH
President

IT IS AN OFFENCE UNDER THE SECURITIES ACT AND THE SECURITIES REGULATION FOR A PERSON OR CORPORATION TO MAKE A STATEMENT IN A DOCUMENT REQUIRED TO BE FILED OR FURNISHED UNDER THE ACT OR THE REGULATION THAT, AT THE TIME AND IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH IT IS MADE, IS A MISREPRESENTATION.

D.C. CORROSION CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1996

Ellis, Govenlock
CHARTERED ACCOUNTANTS

102, 11710 Kingsway Avenue
Edmonton, Alberta
T5G 0X5

Telephone (403) 451-2713
Fax (403) 454-0588

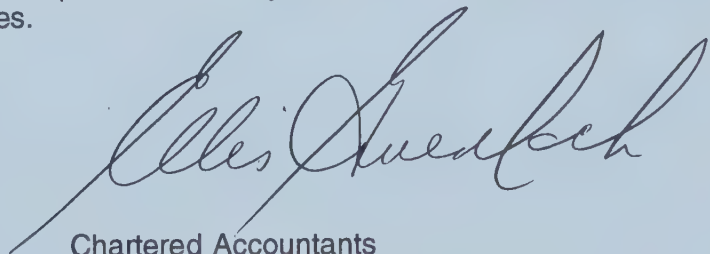
AUDITORS' REPORT

To the Shareholders of
D.C. CORROSION CORPORATION

We have audited the consolidated balance sheet of **D.C. CORROSION CORPORATION** as at June 30, 1996 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted the audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Edmonton, Alberta
September 3, 1996

D.C. CORROSION CORPORATION
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 1996

	<u>1996</u>	<u>1995</u> (4 months)
Sales		
Technical services	\$ 1,572,704	\$ 129,728
Materials	943,915	424,363
Construction and excavation services	671,938	54,034
	<u>3,188,557</u>	<u>608,125</u>
Cost of sales		
Materials and supplies	1,298,048	379,616
Wages and benefits	476,564	85,721
Subcontract	225,356	78,718
Automotive	139,777	9,400
Travel and subsistence	56,713	9,484
Equipment rentals and repairs	36,329	4,739
Telephone and office	25,951	-
	<u>2,258,738</u>	<u>567,678</u>
Gross profit	929,819	40,447
Administration expenses (schedule 1)	722,598	269,745
Income (loss) from operations	207,221	(229,298)
Amortization	181,900	9,509
Income (loss) before income taxes	25,321	(238,807)
Provision for (recovery of) income taxes		
Current	27,000	(45,913)
Income taxes recoverable as a result of losses carried forward	(17,462)	-
Deferred	(2,200)	1,200
	<u>7,338</u>	<u>(44,713)</u>
Net income (loss)	<u>\$ 17,983</u>	<u>\$ (194,094)</u>

Earnings Per Share (note 14)

Ellis, Govenlock

D.C. CORROSION CORPORATION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1996

	<u>1996</u>	<u>1995</u> (4 months)
Balance, beginning of the year	\$ 92,656	\$ 287,249
Net income (loss)	17,983	(194,094)
Dividends	-	(499)
	<u> </u>	<u> </u>
Balance, end of the year	\$ 110,639	\$ 92,656
	<u> </u>	<u> </u>

D.C. CORROSION CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 1996

	<u>1996</u>	<u>1995</u> (4 months)
Operations		
Net income (loss)	\$ 17,983	\$ (194,094)
Items not affecting cash		
Amortization	180,151	12,648
Loss (gain) on sale of capital assets	1,749	(3,139)
Deferred income taxes (recovery)	(2,200)	1,200
	<hr/>	<hr/>
	197,683	(183,385)
Net change in non-cash working capital (note 10)	(443,926)	(7,513)
Dividends	-	(499)
	<hr/>	<hr/>
	(246,243)	(191,397)
Financing		
Issuance of shares	757,694	359,662
Proceeds from long term debt	626,160	62,300
Repayment of long term debt	(111,494)	-
	<hr/>	<hr/>
	1,272,360	421,962
Investments		
Purchase of capital assets	(682,480)	(120,369)
Sale of capital assets	-	20,047
Purchase of subsidiaries	(632,248)	-
	<hr/>	<hr/>
	(1,314,728)	(100,322)
Increase (decrease) in cash	<hr/>	<hr/>
	(288,611)	130,243
Cash (bank indebtedness), beginning of the year	29,530	(100,713)
	<hr/>	<hr/>
Cash (bank indebtedness), end of the year	\$ (259,081)	\$ 29,530
	<hr/>	<hr/>
Cash (bank indebtedness) is represented by:		
Cash	\$ -	\$ 25,305
Term deposits	-	4,225
Bank indebtedness	(259,081)	-
	<hr/>	<hr/>
	\$ (259,081)	\$ 29,530
	<hr/>	<hr/>

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

1. Principles Of Consolidation

These consolidated financial statements include the accounts of D.C. Corrosion Corporation and its wholly owned subsidiaries, D.C. Corrosion Services Ltd., Corrosion Canada Inc. and Safe Excavating Services Ltd.

On July 1, 1995 the company purchased all of the outstanding shares of D.C. Corrosion Services Ltd. by issuing 6,156,220 common shares to the shareholders of D.C. Corrosion Services Ltd. As a result of this reverse takeover, \$351,491 of goodwill has been recognized. These consolidated financial statements are a continuation of the financial statements of D.C. Corrosion Services Ltd. The comparative figures are for D.C. Corrosion Services Ltd. for the four months ending June 30, 1995.

On July 21, 1995 the company purchased all of the outstanding shares of Corrosion Canada Inc. by issuing 1,200,000 common shares of D.C. Corrosion Corporation to the shareholders of Corrosion Canada Inc. This purchase has been accounted for using the purchase method. These consolidated financial statements include the results of operations of Corrosion Canada Inc. for the eleven months ending June 30, 1996. The purchase price of \$360,000 includes capital assets of \$48,000 and goodwill of \$312,000.

On April 1, 1996 the company purchased all of the outstanding shares of Safe Excavating Services Ltd. for \$87. This purchase has been accounted for using the purchase method. These consolidated financial statements include the results of operations of Safe Excavating Services Ltd. for the three months ending June 30, 1996. Fair value of assets acquired was \$573,883. Fair value of liabilities assumed was \$577,299. As a result of this purchase, \$3,503 of goodwill has been recognized.

2. Accounting Policies

(a) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(b) Capital Assets

The company records capital assets at cost less accumulated amortization. Amortization is provided using the following methods and annual rates, except in the year of purchase when only 50% of the rate is used:

Mobile equipment	20-30% declining balance
Equipment	20% declining balance
Computers	30% declining balance
Office equipment	20-30% declining balance
Leasehold improvements	Straight line over remaining term of the lease

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

2. Accounting Policies - continued

(c) Goodwill

Goodwill is recorded at cost, less accumulated amortization. The cost of goodwill is being amortized on a straight line basis over forty years.

(d) Deferred Costs

Deferred costs are recorded at cost less accumulated amortization. The deferred costs are being amortized on a straight line basis over five years.

3. Capital Assets

	1996			1995
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Mobile equipment	\$ 723,526	\$ 146,840	\$ 576,686	\$ 59,662
Equipment	87,563	38,667	48,896	14,027
Computers	86,445	38,117	48,328	17,776
Office equipment	88,068	52,051	36,017	20,663
Leasehold improvements	38,136	7,420	30,716	36,104
	<u>\$ 1,023,738</u>	<u>\$ 283,095</u>	<u>\$ 740,643</u>	<u>\$ 148,232</u>

4. Goodwill

	1996	1995
Cost	\$ 825,574	\$ 158,580
Accumulated amortization	25,927	5,287
	<u>\$ 799,647</u>	<u>\$ 153,293</u>

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

5. Deferred Costs	<u>1996</u>	<u>1995</u>
Financing and reorganization costs	\$ 88,471	\$ -
Strategic plan development costs	45,000	45,000
	<hr/>	<hr/>
	133,471	45,000
Accumulated amortization	29,694	3,000
	<hr/>	<hr/>
	\$ 103,777	\$ 42,000
	<hr/> <hr/>	<hr/> <hr/>

6. Bank Indebtedness

Bank indebtedness bears interest at prime bank rate plus 1.25%. Security provided is as follows:

- (a) General security agreement providing a first specific charge on all assets and undertakings of the corporation;
- (b) Assignment of book debts;
- (c) Assignment of inventory.

7. Long Term Debt	<u>1996</u>	<u>1995</u>
Bank Loan, due May 1, 2006, payable in monthly instalments of \$2,004 plus interest at prime bank rate plus 3%. Secured by mobile equipment with a net book value of \$272,850, a promissory note, assignment of life insurance proceeds and government guarantee.	\$ 247,996	\$ -
Bank Loan, due June 1, 2005, payable in monthly instalments of \$1,784 plus interest at prime bank rate plus 3%. Secured by capital assets with a net book value of \$187,073, promissory notes, assignment of life insurance proceeds and government guarantee.	192,672	62,300
Bank Loan, due July 1, 2002, payable in monthly instalments of \$972 plus interest at prime bank rate plus 2%. Secured by mobile equipment with a net book value of \$91,873 and a promissory note.	67,028	-

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

7. Long Term Debt - continued	<u>1996</u>	<u>1995</u>
Bank Loan, due May 1, 2001, payable in monthly instalments of \$334 plus interest at prime bank rate plus 2%. Secured by mobile equipment with a net book value of \$17,000, assignment of life insurance proceeds and a general assignment of book debts.	\$ 19,666	\$ -
Bank Loan, due August 1, 2001, payable in monthly instalments of \$384 plus interest at prime bank rate plus 2%. Secured by capital assets with a net book value of \$38,236, promissory note, assignment of life insurance proceeds and general assignment of book debts.	19,544	-
Promissory Note, payable to a shareholder. Note is payable on demand, bears no interest and is unsecured. As the loan is subordinate to the bank loan, the note has been classified as long term.	115,060	-
Promissory Note	-	85,000
	<hr/> 661,966	<hr/> 147,300
Less principal amount due within one year	65,736	91,356
	<hr/> \$ 596,230	<hr/> \$ 55,944
	<hr/> <hr/>	<hr/> <hr/>

Estimated principal amounts due within the next five years:

1997	\$ 65,736
1998	65,736
1999	65,736
2000	65,736
2001	61,866

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

8. Deferred Income Taxes

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from accounting policies.

Deferred income taxes relate to capital assets, goodwill and deferred costs on which amortization for accounting purposes is recorded on a basis different than that claimed for income tax purposes.

9. Share Capital	<u>1996</u>	<u>1995</u>
Authorized		
Unlimited common voting shares		
Issued		
8,597,554 common voting shares	\$ 1,117,436	\$ 359,742
	<u> </u>	<u> </u>

The company issued 6,156,220 common shares in exchange for all of the outstanding shares of D.C. Corrosion Services Ltd. The cost allocated to this purchase was \$272,248.

The company issued 1,200,000 common shares in exchange for all of the outstanding shares of Corrosion Canada Inc. The cost allocated to this purchase was \$360,000.

The company issued 414,667 common shares as settlement for \$77,743 of accounts payable.

The 4,133,333 common shares outstanding at June 30, 1995 were consolidated on the basis of one new common share for five old common shares.

The purchase of all of the outstanding shares of D.C. Corrosion Services Ltd. resulted in the shareholders of D.C. Corrosion Services Ltd. controlling D.C. Corrosion Corporation. The share capital of \$1,117,436 includes the June 30, 1995 share capital of D.C. Corrosion Services Ltd. plus the cost allocated to the purchase of the shares of D.C. Corrosion Services Ltd. and the cost of the shares issued subsequent to the purchase of D.C. Corrosion Services Ltd.

The issued share capital is for D.C. Corrosion Corporation. This share structure is different than that appearing in the non-consolidated financial statements of D.C. Corrosion Services Ltd.

Pursuant to the directors, officers, management and key employees Stock Option Plan, effective May 31, 1995 certain key employees and directors have options to purchase 759,000 shares at \$0.15 per share. The options expire May 31, 2000.

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

10. Net Change In Non-Cash Working Capital

Sources (uses) of cash resulting from the net change in non-cash working capital are set out below:

	<u>1996</u>	<u>1995</u>
Decrease (increase) in:		
Accounts receivable	\$ (447,710)	\$ (145,944)
Income taxes recoverable	9,538	(9,538)
Inventory	(25,402)	1,022
Prepaid expenses	(16,951)	1,990
Increase (decrease) in:		
Accounts payable	36,599	181,332
Income taxes payable	-	(36,375)
	<u>\$ (443,926)</u>	<u>\$ (7,513)</u>

11. Lease Commitments

The company's total obligations under various operating leases for occupied premises are as follows:

1997	\$ 17,758
1998	16,488
1999	15,114

12. Comparative Figures

The 1995 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1996.

13. Income Tax Losses Carried Forward

The company and its subsidiaries have accumulated non-capital losses for income tax purposes in the amount of \$136,802. These losses can be applied against taxable income of future years. Should taxable income not arise in sufficient amounts to utilize these losses, they will expire as follows:

2002	\$ 91,561
2003	45,241

D.C. CORROSION CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

14. Earnings (Loss) Per Share

	<u>1996</u>	<u>1995</u>
Basic	\$ 0.002	\$ (0.032)
	<u> </u>	<u> </u>
Fully diluted	\$ 0.002	(0.032)
	<u> </u>	<u> </u>

D.C. CORROSION CORPORATION
CONSOLIDATED SCHEDULE OF ADMINISTRATION EXPENSES
FOR THE YEAR ENDED JUNE 30, 1996

	<u>1996</u>	<u>1995</u> (4 months)
Administration expenses		
Wages and benefits	\$ 315,574	\$ 44,929
Professional fees	79,682	44,427
Management fees	71,875	30,408
Rent	46,610	10,766
Office	41,696	8,613
Telephone and utilities	37,559	9,822
Interest and bank charges	29,261	9,864
Interest on long term debt	28,410	2,833
Insurance	18,816	6,740
Advertising and promotion	17,494	2,715
Automotive	12,255	-
Travel	9,722	-
Consulting fees	8,332	98,628
Repairs and maintenance	5,312	-
	<u>\$ 722,598</u>	<u>\$ 269,745</u>

